

New Issue: Bangor (City of) ME

MOODY'S ASSIGNS A1 TO BANGOR'S (ME) \$14.2 MILLION GO BONDS SERIES 2009 B

A1 RATING APPLIES TO \$89.8 MILLION IN OUTSTANDING LONG-TERM DEBT, INCLUDING CURRENT ISSUE

Bangor (City of) ME
Municipality
Maine

Moody's Rating

Issue	Rating
General Obligation Bonds, 2009 Series B	A1
Sale Amount \$14,245,000	
Expected Sale Date 10/27/09	
Rating Description General Obligation	

NEW YORK, October 23, 2009 -- Moody's Investor's Service has assigned an A1 rating to the City of Bangor's (ME) \$14.2 million 2009 Series B General Obligation Bonds. Concurrently, Moody's has affirmed the A1 rating on the city's outstanding long term debt. A portion of the bonds, \$7.8 million, will be secured by an unlimited property tax pledge as debt service will not be subject to Maine's property tax limitation, known as LD-1. The remaining portion will carry the city's general obligation limited tax pledge as debt service for municipal purposes is subject to LD-1 limitations. Assignment of the A1 rating incorporates the city's satisfactory financial position with sound reserves and wealth levels which trail state and national medians. The rating also factors the city's average debt burden and stable tax base, which serves as the primary economic center for the region. Proceeds from the bonds will provide new money to finance fleet replacement and energy conservation efforts as well as refinance an energy lease previously entered into with Honeywell (senior debt rated A2/stable outlook) in 2008. Further, proceeds will refund bonds originally issued in 1997 and 1998 for a net present value savings in excess of 12% of refunded principal, with no extension of maturities.

SATISFACTORY FINANCIAL POSITION WITH ADEQUATE RESERVE LEVELS

Moody's believes Bangor's financial position will remain satisfactory over the near term as the city is relatively well positioned to manage anticipated revenue shortfalls. The city has augmented its reserve position over the past three fiscal years following a series of reserve reductions between fiscal years 2003 and 2006. The city's \$435,000 General Fund balance gain in fiscal 2009 was due primarily to conservative state revenue sharing and building permit income estimates, in addition to controlled expenditures. At year-end undesignated reserves increased to a sound \$8 million or 8.3% of expenditures, a level in line with the city's formal policy which calls for the maintenance of undesignated reserves between 5% and 10% of the previous year expenditures. Draft fiscal 2009 audited statements indicate a solid \$1.1 million addition to General Fund balance as the city benefited from conservative state aid estimates, lower than budgeted public safety spending, and \$484,000 of additional property tax revenue from an override of Maine's LD 1 property tax limitation in anticipation of increasing fuel expenses. The fiscal 2010 budget represents a 2.6% (\$2.3 million) increase over the prior year. The budget is balanced with a 1.5% (\$685,532) levy increase, a \$1.6 million increase in state aid as the city benefited from funding formula changes, and without the use of reserves. Looking ahead, the city's reserve position may be pressured during fiscal 2010 by a mid-year state aid reduction and a non-binding ballot initiative proposing changes to the motor vehicle excise tax structure, which if approved by the voters in November and implemented by the legislature in its current form, would result in a \$900,000 revenue reduction in fiscal 2010. Notably, the city's overall financial flexibility is enhanced by \$1.5 million of accumulated excess taxing capacity under the provisions of LD 1, representing the amount of allowable levy growth not utilized but available for future budgets. Further, the city's Other Post Employment Benefits (OPEB) liability is modest, limited to the value of its implicit rate subsidy to retirees that buy into the health insurance benefit plan offered to active employees.

CITY SERVES AS THE REGION'S PRIMARY ECONOMIC CENTER

Moody's expects growth of the city's \$2.3 billion tax base to be modest over near term as economic conditions remain weak and unemployment levels elevated. However, Moody's expects Bangor to remain the primary regional economic

center as retail and trade activities attract customers from much of northern Maine and the southern Canadian provinces. Further, the Bangor International Airport and related industrial parks further contribute to the city's importance as an important trade and distribution center. The city's has experienced a trend of steady tax base growth, averaging 6.4% annually over the past five years supported, in large part, by the recent development of Hollywood Slots Casino and Raceway, consisting of over 150 hotel rooms and over 1,000 slot machines. The performance of the facility, which had originally been operating out of temporary space in the city, has reportedly rebounded since 2008 which saw revenues drop an estimated 20%-25% below projections. Of note, the facility is part of a downtown TIF district and the city has not included any of the revenue received from gaming in its operating budget. Development of the casino has been accompanied by new hotel and retail establishments, which contributed to the city's strong 4% growth assessed value in fiscal 2010. Wealth and income levels, which have fallen over each of the last three censuses, are just below average state medians, and poverty rates exceed the state level (16.6% compared with 11%). However, the relatively stronger full value per capita of \$74,887 and unemployment levels (7.1% for August 2009, compared with the state and national levels of 7.7% and 9.6% respectively) reflect the fundamentally stable economy.

DEBT BURDEN EXPECTED TO REMAIN SLIGHTLY ELEVATED

Moody's anticipates that the city's overall debt burden (2.7% of full value) will remain affordable, despite the inclusion of pension obligation bonds, given the large portion of self-supporting sewer and airport debt and modest additional borrowing plans. The debt burden excludes the approximately 44% of city debt that is self-supporting from net revenues of the sewer utility and airport operations. The city issued pension obligation bonds in 2002, \$31.6 million of which remain outstanding; when removing this issuance, for increased comparability to other Maine cities, the debt burden falls to a more moderate 1.4% of full value. Amortization of principal is average, with 66% retired in 10 years and debt service represented a manageable 4.6% of revenues in fiscal 2008. Near-term borrowing plans are limited to modest state revolving fund loans for storm water improvements. The city's debt profile consists entirely of fixed rate borrowing and the city has not entered into any derivative agreements.

KEY STATISTICS

2008 population (estimated): 31,756 (+0.9% since 2000)

Fiscal 2009 Equalized Valuation: \$2.3 billion

Fiscal 2009 Equalized Value per capita: \$74,877

1999 Per Capita Income: \$19,925 (98.8% of the state, 89.4% of the nation)

1999 Median Family Income: \$42,074 (93.1% of the state, 84% of the nation)

Adjusted overall debt burden: 2.7%

Amortization of principal (10 years): 66.1%

FY08 General Fund balance: \$14.2 million (15.1% of General Fund revenues)

FY08 Unreserved, Undesignated Fund Balance: \$8.0 million (8.5% of General Fund revenues)

FY09 General Fund balance (Draft): \$15.4 million (15.9% of General Fund revenues)

FY09 Unreserved, Undesignated Fund Balance (Draft): \$8.7 million (9% of General Fund revenues)

Post-sale outstanding long-term general obligation debt: \$89.8 million

RATING METHODOLOGY USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating this transaction was "Local Government General Obligation and Related Ratings," published in December 2008, which can be found at www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory.

The last rating action with respect to the City of Bangor (ME) was on April 13, 2009 when an A1 rating was assigned to the city's \$3.1 million General Obligation Bonds Series A of 2009.

ANALYSTS:

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